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# THE IMPENDING COLLAPSE

BY MAJOR CHARLES LACEY HALL, U. S. A.

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THE impending collapse of capitalism in Europe is the most tremendous ogre that Western peoples have had to face since the Battle of Tours, that is to say for about twelve hundred years; and, if it is cataclysmic and not evolutionary in its nature, will be the greatest wrench to the existing order of society that has occurred since the fall of the Roman Empire in the West, ushered in the Middle Ages. The spectre of this wrench everywhere, the hackneyed expression, "World Unrest," is merely symbolic of the ubiquitous terror. But the methods hitherto proposed for meeting the problem have depended more on exorcism than on pure realism. Brave men do not scorn to analyze and appreciate, as well as to attack, their enemy. Only fools tilt at windmills. This article is an attempt to arrive, by historical analysis, at the reasons for the impending collapse, as well as to discuss what steps, if any, are possible to meet the crisis.

Capitalism has existed, to some extent, ever since man became a tool-using animal; and, in that sense, will doubtless continue to exist as long as man continues to use tools. But in the narrower sense the term is used to cover the era of the economic mastery of society by the owners of personal property. Personal property is nowadays largely intangible, as far as the individual owners are concerned; but, in economic fact, the property is, by and large, either industrial machinery now in existence, or supplies hitherto consumed or absorbed in the machinery. Prior to the economic control of the personal property holders, control was vested in the owners of real property.

The feudal organization was accepted because it furnished the only means by which the existing population could be kept alive. In the vast majority of cases the peas-

ant preferred life and subjugation to death and liberty. As the adoption of a feudal status tended to increase the population, feudal communities grew in strength and overthrew non-feudal communities, being impelled to the struggle by their need of an outlet for their own expanding population.

Feudalism having succeeded, it immediately obtained control of the sources of public opinion, and, of these, the greatest was the church; because it added, to the ordinary forms which go to make up an average individual's beliefs, the sanction of supernatural manifestations, and also fear of punishment after death, that curious terror of the unthinking. Hence such ideas as "devoir," "loyalty," "divine right of kings," and similar catchwords, were provided to give moral basis to a status triumphant through force, a phenomenon destined to be repeated.

Between the fall of the Bastille (1789) and the repeal of the Anti-Corn Laws in Great Britain (1846), three great events occurred.

1. The French Revolution destroyed the remnants of feudalism, except in Eastern Europe, and thereby set up an independent class of agrarian proprietors, who were themselves small capitalists.

2. The Industrial Revolution caused by the exploitation of modern scientific discoveries enormously increased the wealth of the bourgeoisie and the ability of the earth to support population; but at the same time destroyed the independence and reduced the happiness of the urban proletariat.

3. The consolidation of the Indian Empire created an entirely new type of capitalist, whose performances were almost wholly uninfluenced by public opinion.

Hitherto feudalism and capitalism, as contending forces, had been more or less checked by the fear that one of them would call in the lower classes to redress the balance of power, with dire results, to both. In fact this is just what the French bourgeoisie did do in 1793. From now on, however, the capitalists, reinforced (except in England) by the new race of agrarian proprietors, were entirely in control; and could, and did, exploit the urban proletariat to the uttermost limit of human endurance.

The urban proletariat responded promptly, and in 1848 tried an ill-led demonstration in almost every state in Europe, which had the disastrous effect of destroying the

last of the differences between the capitalists and feudalists, and consolidating the ruling classes of the world into powerful national corporations, which had no difficulty in getting control not only of the existing agencies of church, courts, and education, but also of the sources of public opinion, and especially of those catchwords by which most men live. The capitalists even donned pseudo-virtues, of the type which flourished when feudalism was in full bloom. Charity was substituted for Chivalry, totally useless freedom of religion for asceticism, and aggressive patriotism (Jingoism) for fidelity to the King. Toleration was the motto of the day; but it had the unreality of thirteenth century toleration. As soon as assaults were made on the existing order of society, a new inquisition was destined to suppress those apostles of free speech whose career indicated any probability of success.

The coalition of capitalists with the feudal remnants, which took place in 1848, had different results in different states. In Great Britain and the Latin States (except Roumania), the feudal powers were entirely destroyed. This tended to create a capitalist bloc, alive in all States to the necessity of exploiting their own inhabitants, and controlling public opinion. These states maintained themselves, in the last analysis, by intelligent exploitation of their overseas territories; and conflicts between national blocs in these undeveloped regions were the principal source of their discord. That is to say, they were competitors in the same line of trade, and using the same general system.

In the Central Powers the feudal proprietors and the new capitalists combined. The agrarian interests, which were the economic source of the surviving feudal power, were well looked after; and the feudalists personally continued to render that devoted service to the state for which they had always been noted. At the same time all proper capitalistic enterprises were encouraged; proper being used in its German sense: to expand the power and population of the State. The mottoes of the new combination took on a coalition tinge, expressions like "Deutschthum" and "Kultur" being themselves capitalistic developments of feudal roots.

In Russia and Roumania, feudalism was preserved. Local capitalism was in the hands of the Jews, and the old warfare between capitalism and feudalism continued. In

order to keep the lower classes on the side of those in power, racial and religious prejudices against the Jews were excited. Even at that, however, the warfare was a losing one, because of the rather patent fact that, whatever the evils of capitalism, it produces a more tolerable community than does feudalism. In order to support themselves, the Russian overlords formed an alliance with the French capitalists, later joined by the British capitalists. This alliance was made perfectly patent to the world by the loans floated in London and Paris in 1906, after the dissolution of the first Duma, in spite of the frantic protests of the Russian bourgeoisie (Octobrist manifesto). The Czar was then kept in office by the identical means employed for so many years in the British Indian States, that is, he was subsidized as a tyrant over his subjects, provided that he remained docile as to all external affairs.

The coalition between capitalism and feudalism came rather late into the world; and, at first, had great difficulties in establishing overseas markets. These very difficulties compelled the development of greater efficiency, and as a result of this efficiency, the Central Empires began to drive the Western States to the wall. This drive was due to two radically dissimilar devices.

Ever since 1848 the preservation of capitalism has depended on its progressive amelioration of the condition of the lower classes. In order to accomplish this amelioration the excess profits of capital can no longer be taken from the home state, but must be obtained from subject or backward countries. Hence a strong colonial policy was an absolute necessity to the proletariat, as well as to the bourgeoisie; a fact rather well appreciated by the former. One instance of this, which will serve as well as any other, is the calmness of the Belgian population at the time of the revelation of the Congo atrocities.

In this particular game (the modern slave trade), the Central Empires were novices; and moreover their own lower classes were interested to such a slight extent that they refused to be parties to the necessary exactions, as witness the fuss made by the Social Democrats at the time of the Herrero revelations. Also it became evident to the financial interests involved, that the British could keep their barbarous colonies reasonably happy and make money out of them, when Germany was able to do neither; except pos-

sibly in German East Africa, where a most extraordinary administration was obtained, more or less by accident.

But between 1870 and 1905 the barbarous colonies fell to the position of minor pawns in the game of commercial expansion. The Latin American States, Turkey and China became the great prizes in the world; and the master of their trade could reasonably expect to be both the dominant nation of the world and the one best able to keep its laboring classes contented. This trade, by and large, fell to Germany, owing to that nation's superior efficiency. The Western States were wholly unable to check this expansion in States where they had to keep out of politics, such as Argentina. Every attempt to increase their trade by political expansion, i. e., by closing the door on Germany, as in Morocco, created dangerous military liabilities, of doubtful financial profit; and hence distasteful to their own discontented lower classes. The plans for expanding "Deutschthum", in other words the processes of the feudalist-capitalist coalition, were getting altogether too successful.

The second device used by the Central Empires was the progressive improvement of their own internal administration. The presence of the feudalist class assured an abundant supply of high class administrators, and the remnants of the feudal machinery kept these administrators in office.

By this means the public property was handled much better in the Central Empires than anywhere else; and, consequently, the lower classes were relatively and absolutely getting physically better off all the time. Comparison of the anthropometric measurements of British and German recruits will prove this conclusively.

To meet this menace from the Central Powers the Latin bloc formed a coalition with feudal Russia. This added strength to both; but the danger to France lay in the fact that what was being strengthened in Russia was not the state, but feudal power in the state. In so far as Russia was a semi-civilized field of commercial exploitation, German competition was not killed as in Morocco; and, in fact, it is quite probable that Germany was acquiring as much economic power from Russian trade as was France. The anti-French sentiment in Russia which followed the overthrow of feudal power in 1917, is a pretty fair reflex of the dangers of back-

ing the wrong party in the state; and the present situation of the owners of Russian securities is a similar warning.

Up to 1900 the French and English blocs had been active competitors for colonial power, but about that time both realized that their whole civilization was subject to grave dangers from the Central Empires. Unless they presented a united front the structure of society, which we call democracy, and which the modern Russians call "tyranny of the bourgeoisie", was in grave danger of complete destruction, partly owing to loss of the direct economic power dependent on trade with the semi-civilized states; and partly to the physical deterioration of their man-power consequent upon this loss, deterioration in quantity, as in France, or in quality, as in England. Under the peril of this menace the two states united with Czarist Russia.

The immediate result of this combination was a danger to the Central Empires; because their trade got to be hampered by more or less disguised restrictions on their expansion in the semi-civilized states under Entente influence; and they suffered from the fear of seeing the British self-governing colonies closed to them. Various endeavors were made to compose these differences, but they broke down because Russian feudalists were an indispensable military assistance to the Entente bloc, and could not be abandoned. Yet such an expanding feudal power was so overmastering a danger to German Kultur, that no composition with it was possible, unless it could be persuaded to expand in the opposite direction, that is, towards feudal India. The last attempt at compromise vanished at Agadir in 1911.

From the day war was declared the Western Powers began to use up their accumulated overseas capital and thus dissipate their sources for further commercial exploitation. They also proceeded to capitalize their credit for all it was worth. By this means wealth was transferred out of the hands of the holders of fixed capital, the most naturally conservative forces of the state, either into economically useless goods or labor (munitions of war and pay of the army) or into the hands of entrepreneur capitalists. These latter held their wealth in paper money, and this money could only be converted into real wealth at the expense of somebody. The three possible "somebodies" were:

(a) The inhabitants of the state itself, that is, the general public.

(b) The enemy.

(c) The inhabitants of the semi-civilized states and of the colonies. Another alternative was not to convert it at all, but to repudiate. The probability of repudiation is the existing menace to capitalism.

In 1917 feudalism was destroyed in Russia. There being no native capitalism of any inherent strength, control of the state passed into the hands of the urban proletariat, who seized the industrial machinery, owned nominally by rich Russians, but really by foreign security holders. Such entrepreneur capitalists as existed were ruined. The agrarian character of Russia makes it the best possible place to try out the effects of Marxian Socialism; but, nevertheless, the economic results are not such as to lead people to long for its further expression. Yet it is safe to say that what happened in Russia is sure to happen in the rest of Europe.

The collapse of Russia made the triumph of the Central Powers inevitable unless the Entente could secure further allies. This they were able to do on the American continent, and, as a result of American participation, the Central Powers were defeated and forced to submit to the peace of Versailles. This peace, dictated by the Entente capitalists, is their scheme for converting their paper wealth into real wealth at the expense, partly of the enemy, and partly of the inhabitants of semi-civilized states. Let us analyze it.

In the first place it assumes that all the external trade hitherto in German hands can be transferred to Allied hands by legal processes not essentially different from confiscation; in other words that the good-will of Germany can be expropriated for Entente benefit. But a compulsory sale of good-will never yet has brought anything to speak of; and the only probable effect is to impoverish the loser without enriching the winner.

In the second place it assumes that the very close balance between coal, iron, and transportation in Germany, which alone has permitted its great increase in population, can be disrupted violently without a radical decrease. It further assumes that this population can be compelled to labor indefinitely at a rate barely sufficient to maintain life.

In the third place it assumes that all German excess capital can be seized without, at the same time, so fracturing the organization of Germany as to make the continuation of the capitalistic régime there impossible.



In order to reduce the resistance of the German people, the starvation by blockade was continued for seven months after the armistice. Thereby their economic value, either as citizens or slaves, was permanently diminished. In connection with this blockade, large Allied forces were placed on the Rhine at German expense. This expense exceeded the ante-bellum military budget of Germany. It made any deflation of German credit impossible.

All three of the assumptions noted above have been proved to be erroneous. It is now generally conceded that a German population, deprived of trade, of all the fruits of two generations of industrial organization, and whose capitalists are reduced to complete pauperism, will certainly diminish by starvation with great rapidity, with dangerous effects on the structure of society in the neighboring states, and without contributing one cent towards converting paper wealth now in the hands of Entente capitalists into goods.

In order to transfer the burden of conversion to the inhabitants of the semi-civilized states, the three great areas of exploitation, Russia, Turkey and China, were to be parcelled out among the victorious Powers. Further expansion in the last is, however, definitely checked by Japan. In Turkey the native population developed considerable strength in resisting this burden, and commercial expansion in Mesopotamia and elsewhere seems to be stopped by the obvious economic difficulty that the cost of an expedition exceeds its returns. As for Russia, good money was poured out after bad in the Kolchak-Denikin coupon-collecting episodes until what little reserve strength the Western financial interests possessed was almost completely dissipated, with exactly nil results. Moreover the lower classes in France and Great Britain have begun to appreciate the fact that Russian unity (call it Czarism or anything else) is even more distasteful to the Russian people than the rule of the urban proletariat, as it cannot possibly be maintained except by a reactionary government. These Russian people have not destroyed, by blood and iron, one menace with a feudal tinge, in order to restore a jet black régime.

There is left the possibility of writing off Central Europe and Russia as *in partibus infidelium* and restoring capitalism in the Western States at public expense. But

this cannot be done without making the people save,—reduce the standard of living. All observers are agreed that this standard is now dangerously low among great sections of the population, and further reduction may bring it below the toleration point, with social results horrible to contemplate. That even this would do the job is doubted by many economists. European trade did not travel along straight lines but in circles, and Germany was a point on the circle. A starved Germany would interrupt this circle and hence prevent the other food-importing states from ever getting raw materials.

The only other solution is repudiation, either direct or by a further inflation of credit. This latter means is the one now actually being followed and is apparently destined to continue. By it money is being reduced in value gradually until it no longer pays to print. This reduction naturally unsettles international exchange, and with it international trade. The raw material producer in Polynesia has been accustomed to get money for his cocoanuts with which to buy red cloth. When he discovers that, for his cocoanuts, he no longer gets a reasonable amount of red cloth, he stops producing; unless he can get another source of supply for his red cloth. Also the soldiery who have kept him in order stop soldiering when their pay comes in perfectly useless paper. The raw material market is thereby cut off; and the home state, "not having of its own whereof to live," starves. At this point, in pure desperation, the people turn Bolshevik. To this exact spot all European states are travelling with varying speed, and when they reach it, capitalism will have collapsed, and Europeans will have to starve until they become few enough to live off the land. During this period of starvation it is reasonable to expect that every institution of society we know, every rule of morality we are accustomed to, and every motto we hold dear, will utterly disappear from the European continent.

To meet this crisis American financiers are proposing what amounts to a revision of the Treaty of Versailles. Under it enough concessions are to be made to Germany to keep it alive as a capitalist state, both by not depriving its entrepreneur capitalists of hope, and by affording its entire population a reasonable means of livelihood. At the same time a loan is to be floated in America large enough to carry all the European States until the system of trade

in existence before the war is re-established. In other words, the American producer is to produce on credit for some years.

Now, credit is all very well, but it necessarily involves an inflation of the currency which must eventually be deflated. The profits of inflation go to the entrepreneur capitalist, or profiteer, always: with some share to the laborer, but none at all to the professional man. If the profiteer can convert his credit into fixed capital before deflation sets in, he will become permanently rich; but, at whose expense? If his capital is repaid, at the expense of the European public; if not, at the expense of our public.

If repaid at European expense, payment must be in goods. Since the adoption of prohibition there are practically no European goods needed in the United States, except a few articles of luxury, and the interest can be paid only in

(a) Raw materials from tropical and oriental markets, shipped from them in exchange for European manufactured goods.

(b) Expenditures of American tourists abroad.

(c) Transfers of credits by immigrants to their homes. The first class will always be limited, as America still exports raw materials on its own account. The second class is unlikely to grow for some years; and the less we have of the third the better. Altogether the outlook is not promising.

But the payment of interest of some kind is better than throwing good money after bad; and that is what we are quite likely to do. The expansion of Germany was so great, and was followed so closely by an expansion of the population to its ultimate limit, that it is very doubtful if it can be put on its feet at all, except by the return of economic control over the metallurgical industries of the Saar Valley, Lorraine, and Upper Silesia. In the present state of European public opinion that is impossible. If Germany is not put on her feet, she will go Bolshevist. As already pointed out, that means repudiation in Europe, and, if we make a big enough loan, repudiation here too.

Another danger of the present situation is the instability of European control of Africa and the Near and Middle East, which is the foundation of European capitalism, and indeed the real cause of its present population. History

teaches us that any nation weak enough to call in its subject peoples to fight its battles at home will eventually be ruled by those peoples. The Senegalese soldiers of France are, as likely as not, the successors of Hengist and Horsa. Certainly the Mohammedans are now in revolt against European domination; and, in the present low state of European economic power, the re-establishment of the Caliphate of Bagdad and the Peacock throne is not beyond the bounds of possibility. The American people are not prepared to finance any European enterprise in the East, after the shock which they got from Anglo-Russian performances in Persia. Mohammedan unrest should be taken into consideration in determining the real security behind any loan to Europe.

What is the remedy? Can the impending collapse be averted? Is it possible for Europe to fall into bankruptcy and anarchy without similar crises on this side of the Atlantic? For a time, certainly, we can leave Europe to stew in her own juice. For a time we can import raw materials and export manufactured goods in our own ships, and establish our own circle of trade, with Europe off the circumference. But Europe will not allow this to come about. We have only to fold our arms and abstain from interference in Europe, and the statesmen of the Old World will ask our conditions. John Maynard Keynes advises our refusing to lend any more money to the *present* Governments of Europe. Public opinion in Allied countries, when the collapse is imminent, may clamor for constructive statesmanship and may tolerate a revision of all the treaties of the past year in order that economic life may be resumed and the present social order preserved. The writer has endeavored to examine the situation historically, and to learn from the past what action will best serve his country for the future.

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